

Message Text

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ACTION EB-07

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 6931

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E.O. 11652: N/A

TAGS: ECON, CA

SUBJECT: INFLATION INCREASES IN CANADA

1. ON JULY 10, STATISTICS CANADA ANNOUNCED SHARP RISE OF 1.5 PERCENT IN CONSUMER PRICE INDEX FOR JUNE. CPI, WHICH HAD BEEN INCREASING DURING FIRST FIVE MONTHS OF 1975 AT ABOUT 7 PERCENT ANNUAL RATE (0.8 PERCENT IN MAY), WAS APPRECIABLY HIGHER IN JUNE DUE PRIMARILY TO INCREASED FOOD COSTS (OVER THREE-FIFTHS OF JUNE INCREASE ACCOUNTED FOR BY FOOD PRICE RISE).

2. FOR JUNE, CPI INDEX WAS 184.0 (181.3 IN MAY) AND WAS 11.2 PERCENT HIGHER (SEASONALLY ADJUSTED) THAN IN JUNE OF 1974 (166.7 WITH 1961 AS BASE YEAR OF 100). FOOD INDEX JUMPED 3.3 PERCENT FOR MONTH, LED BY 18 PERCENT RISE IN AVERAGE BEEF PRICES. (FOOD INDEX WAS 213.3 IN JUNE AND 206.5 IN MAY.) ALL ITEMS INDEX, EXCLUDING FOOD, WAS UP 0.8 PERCENT (FROM 172.5 TO 173.8) WITH SHELTER COMPONENT, BOTH RENTED AND OWNED ACCOMMODATIONS, RISING BY 1.0 PERCENT.

3. STATCAN NOTED IN ANNOUNCEMENT THAT GASOLINE EXCISE TAX INCREASE OF C\$.10 PER GALLON IN FINMIN TURNER'S BUDGET OF JUNE 23 NOT REFLECTED IN JUNE CPI. ACCORDING TO STATCAN "IMPACT OF THIS TAX ALONE WOULD INCREASE NEXT MONTH'S TOTAL CPI BY NEARLY ONE-HALF UNCLASSIFIED

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OF ONE PERCENT".

4. ARTICLE IN MONTREAL GAZETTE OF JUNE 8 BY PETER COOK OF FINANCIAL TIMES QUOTES GOC OFFICIALS AS PREDICTING INCREASED INFLATION IN LATTER HALF OF 1975 WITH CPI RISING BY 10 PERCENT FOR YEAR. PREDICTIONS WERE THAT FOOD PRICES WOULD BE UP 12 TO 13 PERCENT, AND OIL AND NATURAL GAS PRICE HIKE WOULD ADD 1.5 PERCENTAGE POINTS TO INDEX. GOC ECONOMISTS, ACCORDING TO COOK, WERE ALSO FORECASTING 14 TO 15 PERCENT RISE IN AVERAGE WEEKLY WAGES FOR 1975 (AS OPPOSED TO 11 PERCENT IN 1975), THUS CREATING ADDITIONAL INFLATIONARY PRESSURES.

5. COMMENT: FINMIN TURNER AND OTHER GOC OFFICIALS DURING PAST FEW MONTHS HAVE CONCENTRATED ON INFLATION AS CHIEF ECONOMIC PROBLEM FOR CANADA IN MONTHS AHEAD AND HAVE SIGNLED OUT LARGE WAGE SETTLEMENTS AS MAIN THREAT TO CANADA'S COMPETITIVE POSITION IN WORLD MARKETS. HOWEVER, GOC POLICIES, INCLUDING GASOLINE EXCISE TAX, HIGHER FULE PRICES, AND ACTIONS AFFECTING AGRICULTURAL PRODUCTS(EGG PRICES JUMPED C\$0.05 PER DOZEN THIS WEEK FOLLOWING ANNOUNCEMENT ON PRODUCTION CONTROLS AND IMPORT QUOTAS) EXACERBATE INFLATIONARY TREND. JOHNSON

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